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FM AMEMBASSY AMMAN
TO RUEHC/SECSTATE WASHDC PRIORITY 3301
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INFO RUEHEG/AMEMBASSY CAIRO 3746

UNCLAS AMMAN 002366

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STATE FOR NEA/ELA and EB/TPP/ABT/ATP
STATE PASS USAID
STATE ALSO PASS EXIM
USDA FOR FAS
CAIRO FOR FAS AGMINCOUNS KURZ

E.O. 12958: N/A

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SUBJECT: Jordanian Request for Assistance to Address Food Security Needs

REFS: A) Amman 2177

- B) Amman 2066
- C) Amman 1903
- D) Amman 1754
- E) Amman 1639
- F) Amman 1392
- G) Amman 1149
- H) Amman 1034
- I) Amman 1030
- J) Amman 816
- K) Amman 815
- L) Amman 670
- M) Amman 518
- N) Amman 407
- O) Amman 26
- P) 07 Amman 3813

11. (SBU) Summary and action request: Jordan is a net importer of food, and the continuing global increase in food and agricultural commodity prices could not have come at a worse time. Government of Jordan (GOJ) efforts to lower its debt burden, such as buying back \$2 billion in debt from Paris Club members including the U.S., and eliminating fuel subsidies, are steadily being negated by high inflation, increased payments to the poor through its safety net program, and attempts to stabilize bread prices by subsidizing wheat. Public criticism of the GOJ response to economic woes, initially muted, is now growing following steady increases in food prices, five continuous months of gasoline price increases, and the five-fold increase in the price of diesel. These price hikes, particularly for commodities such as wheat, and continued subsidies for cooking fuel and fodder, contributed to the need for a budget supplemental (ref C). The GOJ has cut duties and taxes of staples and called on merchants to lower their profit margins, but is running out of measures to curb price spikes. As a result, senior GOJ officials have unofficially requested U.S. food assistance in the form of low- or no-interest loans, donations, training, and the reinstatement of programs such as PL-480 and PL-14. Action request: Post welcomes State and Agriculture guidance on assistance programs or other measures to address Jordan's growing needs in this area. End summary and action request.

12. (U) Jordan is a net importer of food, purchasing up to 95 percent of consumable items from abroad, including sugar, rice, powdered milk, tea, coffee, corn, vegetable oil (excluding olive oil), cheese, chick peas, vermicelli, and lentils. Between August 2007 and August 2008, the price of lentils increased 155 percent, followed by both milk and vegetable oil by 70 percent, American rice by 65 percent, dairy products by 50 percent, and sugar by 25 percent. Ironically, the lower the grade of the product, the higher the price increase, thus affecting most those who can least afford it. Additionally, in the past two years, the cost of wheat and

barley - 95 percent of which is imported - as well as soybean cake, has increased by at least 300 percent; consequently the prices of all by-products have soared.

¶13. (U) Amidst these changes, salaries have remained stagnant and more and more families, which spend on average 40 of their income on food, are going without. Note: According to the U.S. Department of Agriculture, the average American family spends 9.9 percent of household income on food. End note. A Jordan Department of Statistics (DOS) survey released June 18 reported 13.7 percent of Jordan's 5.7 million residents are now at or below the poverty line, and spending JD46 (\$65) monthly per person for basic necessities. Note: The Ministry of Planning and International Cooperation in 2006 set the poverty line at \$784 per person per year. According to the recent DOS statistics, families spend \$780 per person on basic necessities including food. End note. DOS also announced a "critical" increase in the prevalence of acute malnutrition among children under the age of five. As prices have increased, Jordan's purchasing power has dropped by 25 percent, a result, in part, of the decrease in the value of the U.S. dollar to which the Jordanian Dinar is pegged.

¶14. (U) Along with the increase in prices for imported items, the cost of domestically produced consumable goods has also risen. Local agricultural production contributes less than 3 percent to GDP and is an inefficient user of Jordan's scarce water resources, but the average price increase of agricultural producers was 12.4 higher in 2008 than in 2007, according to a July DOS report. DOS further documented that the June 2007-June 2008 year-on-year increase of food from Jordan's Consumer Price Index (CPI), of which 40 percent represents food items, reached 17.7 percent; the overall CPI increase for the same period was 16.6 percent. These changes are reflected in the prices of locally produced items which have

increased dramatically: onions by 234 percent; broad beans, 220 percent; eggs, 86 percent; tomatoes, 73 percent; cauliflower, 58 percent; meat, 50 percent; okra, 44 percent; corn, 36 percent; bananas, 23 percent; cucumbers, 19 percent; string beans, 7 percent; and potatoes, 6 percent.

¶15. (SBU) The impact of rising food prices has been exacerbated by world oil prices, regional developments, and environmental factors. Following the February elimination of fuel subsidies, consumer prices for petroleum prices have risen for five consecutive months (refs B, D, and F). Surging oil prices have also contributed to increases for imported goods, annulling in the eyes of many traders, benefits associated with importing American products under the U.S.-Jordan Free Trade Agreement. Officially, 450,000 displaced Iraqis reside in Jordan and are entitled to the price cuts and subsidies offered to Jordanian citizens. For many consumer products, the actual impact of the Iraqi presence is negligible, but the perception that they contribute to current economic woes is widespread. The U.S. and international community have provided assistance, but the Iraqi population remains a burden for the educational and health sectors and represents another user of Jordan's precious water resources. Jordan is also experiencing a drought, further affecting the already limited ability of its inefficient agriculture sector to address domestic needs (ref E). The drought began as farmers struggled to overcome the effects of a winter frost, rising fertilizer costs despite Jordan's potash/phosphate wealth, and an anticipated seed shortage.

Actions Taken to Address the Food Crisis

¶16. (U) The GOJ took immediate steps to address the food crisis, abolishing in January customs fees and sales tax on 13 common foodstuffs: sugar, rice, powdered milk, cheese, tea, coffee, palm oil, chick peas, vermicelli, wheat flour, corn flour, and lentils (ref O). The Prime Minister further called upon the private sector to reduce the prices of these products and limit their profit margins "as a matter of national responsibility." To offset price increases, the GOJ also implemented a \$424 million social safety net program to put cash in the hands of the neediest citizens.

Parliament subsequently requested the GOJ increase the pay-outs and the budget supplemental included the appropriate funding (ref C).

17. (SBU) As prices continue to rise, however, the GOJ will not be able to sustain a high level of public assistance without bankrupting the treasury. Jordan continues to explore all options. Officials confirmed in late July that the cost of the most common type of bread would remain fixed at JD .16 (\$.22) per kilogram, with GOJ Spokesperson Nasser Judeh explaining, "the biggest challenge currently facing the government is the hike in prices and alleviating their impact on people... Now, we are taking the needed internal economic measures to meet that goal." Note: The Ministry of Industry and Trade purchases and sells wheat at heavily subsidized prices (ref H). End note. The King also decided that much of a Saudi grant will be directed toward improvements in impoverished communities. He further announced he would personally pay \$7 million in annual fees for public school students so that families could use the funds for other needs. Despite these efforts, the food crisis is affecting the entire Kingdom, and Jordan will soon run out of options for independently addressing the crisis.

18. (SBU) In response to GOJ requests for assistance in managing the purchase of imported consumables, Post facilitated Jordanian participation in a risk management workshop sponsored by the American Soybean Association. Five officials from the Ministry of Finance and the Ministry of Industry and Trade, as well as 25 Jordanian private sector agricultural executives, gained hands-on training in hedging. A number of food importers also attended an FCS-sponsored workshop on using the FTA. The purpose of the workshop was three-fold: to promote the benefits of exporting to or importing from the U.S. using the U.S.-Jordan FTA; to teach companies how to identify the harmonized codes for their products and whether they are tariff-free under the FTA; and to identify necessary shipping documentation and best practices. Additionally, while current USAID programs in Jordan are not food/agriculture-specific, they do address human and institutional capacity building. USDA-FAS has also invited two GOJ officials to attend a regional workshop on food safety, and further extended to three GOJ officials an opportunity to participate in study tours in the U.S. that include professional training tailored to their needs.

Possible Areas for Cooperation

19. (SBU) GOJ and Post efforts are not sufficient to address Jordan's growing needs. Jordan is a beneficiary of considerable bilateral assistance; however, none of it addresses food needs. Historically dependent on foreign assistance, the GOJ has worked hard to transform the country into a market-based economy, implementing a series of difficult economic reform measures, acceding to the World Trade Organization, and negotiating free trade agreements with countries around the world. Jordan has used wisely the billions of dollars of economic and security assistance that the U.S. has invested since 1952 to develop a knowledge-based society and improve health care services. U.S. assistance to address the current food crisis would also be used judiciously. Moreover, with U.S. food assistance, this close ally would ultimately be able to continue economic reform measures, conserve scarce water resources, including measures to improve pricing and distribution policies, and thereby augment other U.S. efforts in support of Jordan's political and economic stability. Areas of opportunity for U.S. assistance include:

-- Reinstating PL-480 or providing financial assistance to defray the high transportation costs of American wheat. Jordan has sought to supplement its needs through agreements with Syria and Kazakhstan, but both countries have both since experienced shortages. GOJ officials also lauded PL-14 and requested a similar program.

-- Providing grants for purchasing wheat as well as financing mechanisms for the low-interest (GOJ seeks rates below 0.5 percent) purchase of wheat to be paid back over a 20-30 year period. Note: EXIM is ready to do business in Jordan, but the GOJ says it cannot afford the quoted rate of \$2.23 for every \$100. End note.

-- Creating an emergency credit program for the purchase of wheat and rice.

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